

Tax Working Group Public Submissions Information Release

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Tax Working Group Secretariat
PO Box 3724
Wellington 6140
New Zealand

Proposal to amend the existing tax brackets.

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Executive Summary:

Taxation is a tool that can influence behaviour and provide the correct conditions within the economy for growth and productivity.

The existing broad base system in relation to tax on earnings from salary and wages is excellent. With a slight tweak it would deliver a higher economic output and reduced negative behaviour of individuals within the system due to the current tax brackets and treatment at Work and Income NZ. This would include introducing a zero tax brackets for individuals to encourage low income earners and recipients of government transfers to productively join the workforce. This band would exclude income received from governmental transfers and income from business (e.g. self-employment, shareholders salaries with deductions).

This in turn would lead to better short-term employment solutions for both individuals and businesses, increasing productivity within the economy and developing skills for future employment opportunities for these individuals. Secondary benefits in provide employment experience to new and returning workers would also improve outcomes.

The Problem:

The existing broad base tax system is international recognised as being 'fair' when it is applied to income that is tax at source (PAYE, RWT and scheduler payments). This is then influenced negatively when it includes other sources of income which allows a higher level of deductibility and assessability issues, like the capital gain on a rental property.

This is a problem which is NOT being addressed in this paper. The problem I wish to address is that of the unproductive workforce that chose not to engage within the labour market due to their perception of their value in the market place or situations that will be detrimental to them in the long term.

In this paper I will use three examples:

1. Qualified professional (accountant/ lawyer) who has had a break from their professional to have and/or raise children. Married with a good family income so does not need to immediately return to the workforce.

This person was earning significant income prior to exiting the workforce and would happily work part time but not for the money that is on offer from employers for part time roles. They have a huge amount of skill and expertise that would benefit business in both productivity, management and growth.

2. Retired individuals who have good mobility and skills that would work in part time employment to supplement their retirement savings and/or government transfer (superannuation).

This person would have great skills to cover shortages or seasonal work but chooses not to work or re-enter the workforce due to the value of their earning with the implementation of secondary taxation and the level of earnings they will receive (minimum wage).

3. Individual receiving the unemployment benefit (government transfer) who is actively looking for full time employment.

This individual would happily work part time or seasonally while looking for full time employment but cannot accept those positions as they will then have a six week stand down on their benefit. They require this money and are forced into the position of not being able to work productively within the economy due to the stand down.

These three examples are all people whom would actively participate in the workforce, adding value to the economy should the value of their contribution be more fairly taxed.

The Solution:

The proposed solution to get individuals to enter the workforce is to amend the existing tax brackets for income from employment.

The existing tax brackets are:

0	14,000	10.5%
14,000	48,000	17.5%
48,000	70,000	30.0%
70,000	+	33.0%

The proposed tax brackets:
For employment income

0	5,000	0.0%
5,000	14,000	12.0%
14,000	48,000	20.0%
48,000	70,000	25.0%
70,000	150,000	33.0%
150,000	+	35.0%

The proposed tax bracket will be for employment income that has deduction at source. Other income (governmental transfers, self-employment, investment, business etc.) will be taxed in full at the lowest tax rate of 12%.

This tax free employment income would also not be treated as income for the entitlements that individuals would receive from Work and Income New Zealand.

This proposal is to encourage those not engaged in the workforce to enter the market and productively contribute to the economy. If we use the examples as provided we can see the additional benefit.

Example 1:

The person is happy to work for a business knowing that the hourly rate for the first \$5,000 is exactly what they will earn. They feel better rewarded for their contribution and have a vast amount of skill and experience that will benefit the business.

This is a hugely under-utilized section of the workforce that are not included in the unemployment numbers as they are not actively seeking employment. They would work and this proposal will help achieve that.

Example 2:

As noted above the individual have skills and experience that is desirable but due to the inconvenience of the existing taxation system (secondary tax) and tax brackets they do not feel that the earnings are worth the effort.

This segment is perfect for seasonal work and part time employment. They would be able to full regional shortfalls e.g. driving school buses due and provide depth for employers e.g. filling in for staff on holiday which remains an issue for employers.

Example 3:

This person wants to work and would happily take short term rolls if it did not impact the benefits that they are entitled to. In this case the individual would be able to undertake an activity like fruit picking for the six week season without the concern that it would impact their benefit.

They also know that the income will not be taxed at source and the income they receive will be fully theirs, therefore encouraging them to seek these opportunities.

In these three examples people whom would not normally engage in the workforce would be able to undertake part time or seasonal employment. They would contribute to the economy and provide valuable resources to businesses. As the unemployment rate continues to drop will be essential for productivity. It will also improve their perception on the fairness of the tax system.

The added benefit is that these segments as identified (specifically example 1 and 3) would be gaining valuable experience and could be encouraged to return to the workforce or secure permanent jobs. Therefore, the taxation system at this level would be seen to be fairer and encourage productivity within the economy of those people whom currently feel excluded.

The Numbers:

The impact of the changes in taxable revenue in gross terms is minor. Using the 2016 data from Inland Revenue ⁽¹⁾ we can determine this as detailed below. We are unable to calculate the impact of the other assessable income from governmental transfers (\$20 + billion) and business income on the non-taxable tax bracket as these will still be taxed.

Currently there are 579,000 ⁽²⁾ individuals receiving benefits and 514,276 ⁽³⁾ receiving super. This conservatively that would be an additional \$864m of taxation collected which is excluded from the below calculations.

Current State:

From the below table we can see that the 2016 individual tax assessed was \$31.226 billion.

2016 Individual Taxation

Tax Brackets		Rate	No. Taxpayers		Tax Assessed		Average	Average	Average
				%	\$ (M)	%	Tax Assessed	Income	Rate
-	-	10.5%	98,000	2.7%	-	0.0%	-	-	
-	14,000	10.5%	698,340	18.9%	505.7	1.6%	724	6,897	10.5%
14,000	48,000	17.5%	1,693,560	45.9%	6,311.9	20.1%	3,727	26,897	13.9%
48,000	70,000	30.0%	581,140	15.8%	6,056.4	19.3%	10,422	58,005	18.0%
70,000	+	33.0%	616,050	16.7%	18,462.5	58.9%	29,969	118,331	25.3%
			3,687,090		31,336.5				
70,000	150,000		522,380	14.2%	11,354.8	36.2%	21,737	93,384	23.3%
150,000	+		93,670	2.5%	7,107.7	22.7%	75,880	257,455	29.5%

Proposed State:

The table reflects a drop in the taxation assessed by \$586 million, but this as explained above does not include government transfers that would have an additional \$1,080 tax assessed on those individuals receiving them. This is estimated at least \$864 million. Nor does it seek to quantify the business income that would also be tax fully therefore the government would actually see a minor tax increase from this.

Tax Brackets		Rate	No. Taxpayers		Tax Assessed		Average	Average	Average
				%	\$ (M)	%	Tax Assessed	Income	Rate
-	5,000	0.0%	364,840	9.9%	-	0.0%	-	-	
5,000	14,000	12.0%	431,500	11.7%	250.5	0.8%	581	9,838	5.9%
14,000	48,000	20.0%	1,693,560	45.9%	6,197.5	20.2%	3,659	26,897	13.6%
48,000	70,000	25.0%	581,140	15.8%	6,033.0	19.6%	10,381	58,005	17.9%
70,000	150,000	33.0%	522,380	14.2%	11,020.5	35.8%	21,097	93,384	22.6%
150,000	+	35.0%	93,670	2.5%	7,249.1	23.6%	77,389	257,455	30.1%
			3,687,090		30,750.5				

It would increase the burden for the top tax bracket which already carry the highest contribution, which may be seen as unfair by some. Although under the existing political environment this may be seen as desirable.

Conclusion:

The existing broad based taxation system is working and delivers into the government 40.2% of its revenue from individual taxation. A tax system should also be a tool to influence productivity within an economy. This in turn will delivery greater revenue from business activities (company tax) and consumption tax (GST) for the government.

The existing taxation brackets limit the productivity from a number of segments in the workforce due to the taxation effect on their perceived value and the impact on benefits at WINZ. This could be removed with providing a tax-free level of income (proposed \$5,000) that would encourage people to join the workforce.

The benefits for the examples as noted above together with other segments e.g. students would provide a resource for business and add additional people into the workforce. Some of which has great skills and experience and others that can provide the necessary short-term labour for tasks such as fruit picking that is required.

This will bring other benefits such as an employee being recognised as a “keeper” and retaining a full-time position and provided valuable experience for those entering or returning to the work force.

This will lead to a fairer tax system and increase productivity with in the New Zealand economy.

Philip Rance

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About the author:

I hold a B.com in accounting and finance and am a Chartered Accountant. I started by career with Inland Revenue then Ernst & Young. I have worked in industry within New Zealand, England and the United States of America. I am currently CEO of TaxRefunds.co.nz Limited which represents over 100,000 linked taxpayers filing both IR3 and Personal Tax Summaries.

- (1) www.ird.govt.nz/resources/9/3/930f79b9-03e0-429c-8ffa-247655f0c490/Thousand+dollar+bands+01-16_archive.xlsx
- (2) <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/latest-quarterly-results/all-main-benefits.html>
- (3) <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/latest-quarterly-results/all-main-benefits.html>